

Statistical bulletin

# Profitability of UK companies: January to March 2019

The net rate of return on capital employed for UK private non-financial corporations related to their UK operations.



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# 1 . Main points

- The net rate of return for private non-financial corporations' (PNFCs) was 12.3% in Quarter 1 (Jan to Mar) 2019, slightly up from the estimate of 12.2% for Quarter 4 (Oct to Dec) 2018.
- The net rate of return for manufacturing companies fell to 12.2% in Quarter 1 2019, down 2.1 percentage points from the previous quarter's net rate of return of 14.3%.
- Services companies' net rate of return was 19.0% in Quarter 1 2019, an increase of 1.2 percentage points from the estimate of 17.8% in Quarter 4 2018.
- UK continental shelf (UKCS) companies' net rate of return was 8.9% in Quarter 1 2019, down from the estimate of 13.1% in Quarter 4 2018.

## 2 . Things you need to know about this release

This bulletin provides estimates of the profitability of UK-based private non-financial corporations (PNFCs). PNFCs comprise UK continental shelf (UKCS) companies and other non-financial UK (non-UKCS) companies. Non-UKCS companies are further split into manufacturing companies, companies providing non-financial services and other industries (including construction, electricity and gas supply, agriculture, mining and quarrying).

UKCS companies engage in oil and natural gas exploration or extraction. This only includes companies operating on the UK continental shelf – the area where the UK claims mineral rights beyond the territorial waters. Owing to the nature of the industry, UKCS companies tend to be very capital-intensive and so require high levels of capital investment to operate. They also report high levels of depreciation of their fixed assets. For these reasons, the net rate of return for UKCS companies is not directly comparable with those for other sectors.

No revisions to the net rates of return for PNFCs for previous quarters have been made and this is consistent with the [GDP quarterly national accounts](#) and [Quarterly sector accounts](#) published on 28 June 2019.

### How do we measure profitability?

Net rate of return is used as the measurement of company profitability throughout this bulletin, except in the international comparisons section. The rate of return is calculated as the economic gain (profit) shown as a percentage of the capital used in production. 'Net' refers to the rate of return after having accounted for the current value of capital consumed and capital stocks. Capital consumed refers to the decline in the current value in the stock of fixed assets (for example, due to depreciation). Gross rates of return are available in the [dataset](#) with this release.

## 3 . Private non-financial corporations' net rate of return rose slightly to 12.3%

The net rate of return for private non-financial corporations (PNFCs) rose slightly to 12.3% in Quarter 1 (Jan to Mar) 2019 from the estimate of 12.2% in Quarter 4 (Oct to Dec) 2018 (Figure 1).

A rise in the seasonally adjusted [gross operating surplus](#) has been offset by a rise in the gross capital employed leading to a minimal gain in the rate of return.

The very small change in profitability is reflected in [Ernst and Young's report](#) where UK-quoted companies issued 89 profit warnings for Quarter 1 2019 compared with 88 issued profit warnings in Quarter 4 2018. The sectors issuing the most profit warnings in Quarter 1 were general retailers (12) followed by financial services (10).

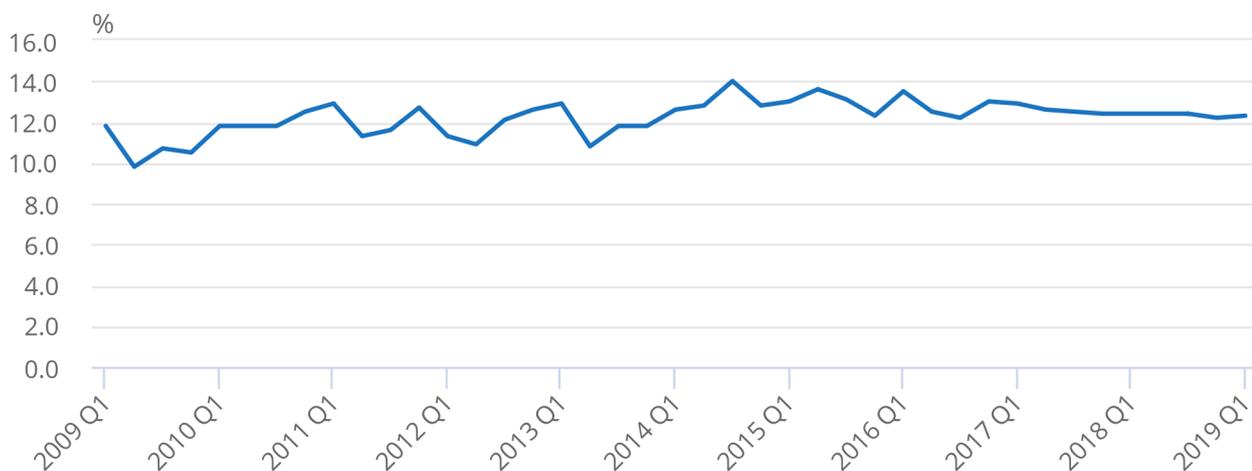
Of the companies who issued a profit warning, 35% reported the reason as sales short of forecasts, which is the same as the previous quarter, whilst 20% reported delayed or discontinued contracts. Ernst & Young reported that 10% cited EU exit as a reason for their profit warning.

**Figure 1: Quarterly net rate of return has generally been stable for the past two years**

Net rate of return of UK private non-financial corporations, Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2019

Figure 1: Quarterly net rate of return has generally been stable for the past two years

Net rate of return of UK private non-financial corporations, Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2019



Source: Office for National Statistics - Quarterly Operating Profits Survey

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

## 4 . Manufacturing companies' profitability fell to 12.2% whilst services rose to 19.0%

### Manufacturing companies

In Quarter 1 (Jan to Mar) 2019, the net rate of return for manufacturing companies fell to 12.2% from the estimate of 14.3% in Quarter 4 (Oct to Dec) 2018 (Figure 2). This was caused primarily by a larger than usual fall in profitability by the food products, beverage and tobacco sector.

The [Bank of England summary](#) reports that growth in domestic manufacturing output slowed and weaker demand from Europe and China weighed on growth in export of manufactured goods.

The [British Chambers of Commerce \(BCC\) Quarter 1 2019 economic survey](#) indicates the manufacturing sector continues to struggle amid tougher global and domestic trading conditions. The balance of businesses confident that turnover and profitability will increase in the next 12 months is at its weakest since Quarter 4 2011.

## **Services companies**

The net rate of return for services companies in Quarter 1 2019 increased to 19.0% from an estimate in Quarter 4 of 17.8% (Figure 2). This is the largest quarterly percentage increase since Quarter 4 2016. The sub-sectors causing this were real estate activities, professional, scientific and technical activities, and administrative and support service activities.

The [GDP monthly estimate: March 2019](#) reports that the services industry grew by 0.3% in Quarter 1 2019. The main contributors to this were retail trade and the information and communication sub-sector.

The [Index of Services: March 2019](#) also reported that the services output increased by 0.3% in Quarter 1 2019. The main contributor was the wholesale, retail and motor trade industry.

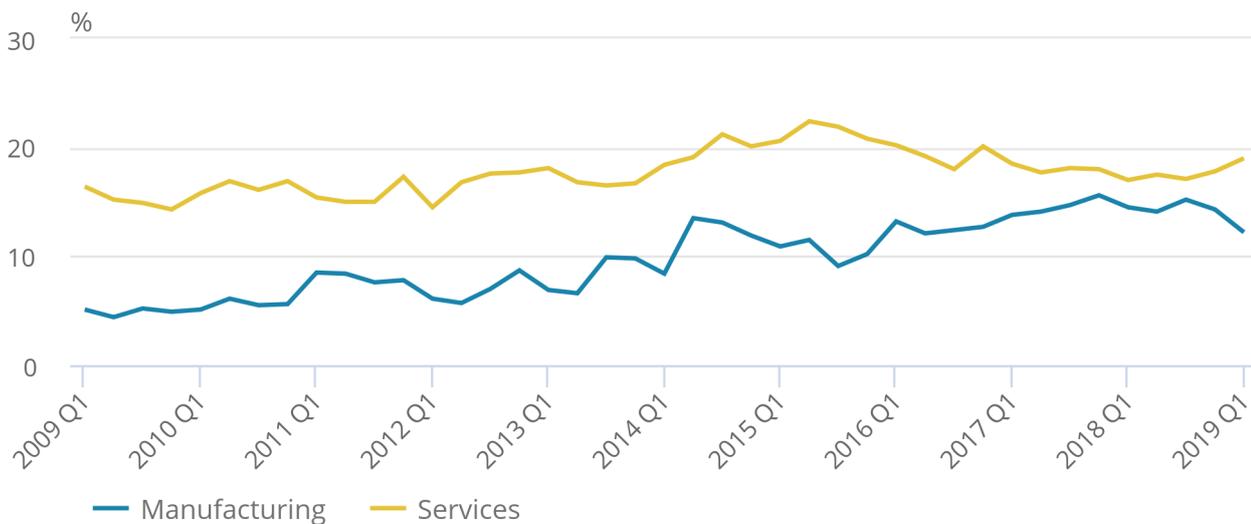
Conversely, the [British Chambers of Commerce \(BCC\) Quarter 1 2019 economic survey](#) reports that the balance of businesses confident that profitability will improve over the next year fell from positive 28 to positive 19, the weakest since Quarter 3 (July to Sept) 2016.

**Figure 2: There is divergence between manufacturing and services companies in Quarter 1 2019**

Net rate of return of UK non-continental shelf companies split by manufacturing and services, Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2019

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Source: Office for National Statistics - Quarterly Operating Profits Survey

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1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

## 5 . UK continental shelf companies' growth fell to 8.9% as wholesale gas prices fell steadily

The estimated net rate of return for UK continental shelf (UKCS) companies in Quarter 1 (Jan to Mar) 2019 was 8.9% (Figure 3). This was down 4.2 percentage points from the estimate of 13.1% in Quarter 4 (Oct to Dec) 2018. This is similar to the previous quarter, when the growth fell by 4.3 percentage points.

Wholesale gas prices fell steadily through the quarter driving the profitability down. This trend is continuing as reported by [Reuters](#) which states that since January 2019, wholesale gas prices have fallen by around 40%.

### Figure 3: UK continental shelf companies' profitability fell for the second consecutive quarter

Net rate of return of UK continental shelf (UKCS) companies, Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2019

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Net rate of return of UK continental shelf (UKCS) companies, Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2019



Source: Office for National Statistics - Quarterly Operating Profits Survey

#### Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

## 6 . How does UK profitability compare internationally?

Profitability is a relative measure of profit and how it was created. This bulletin shows the rate of return on capital employed. Unfortunately, other countries use a range of different measures, making international comparisons difficult.

It is possible to compare the aggregated national profit share, defined as gross operating surplus (GOS) plus mixed income (income made by the self-employed and other non-incorporated businesses) divided by gross value added (GVA) on a [European System of Accounts 2010: ESA 2010 \(PDF, 6.4MB\)](#) basis. GVA is the difference between the cost of inputs (whether capital or labour) and the cost of the output. The difference in the cost is due to the value added using labour and capital. GOS is the income earned from capital. The national profit-share measure includes the activity of other profit-making sectors, such as financial corporations and public corporations, whilst the rest of this bulletin refers to the activities of private non-financial corporations only.

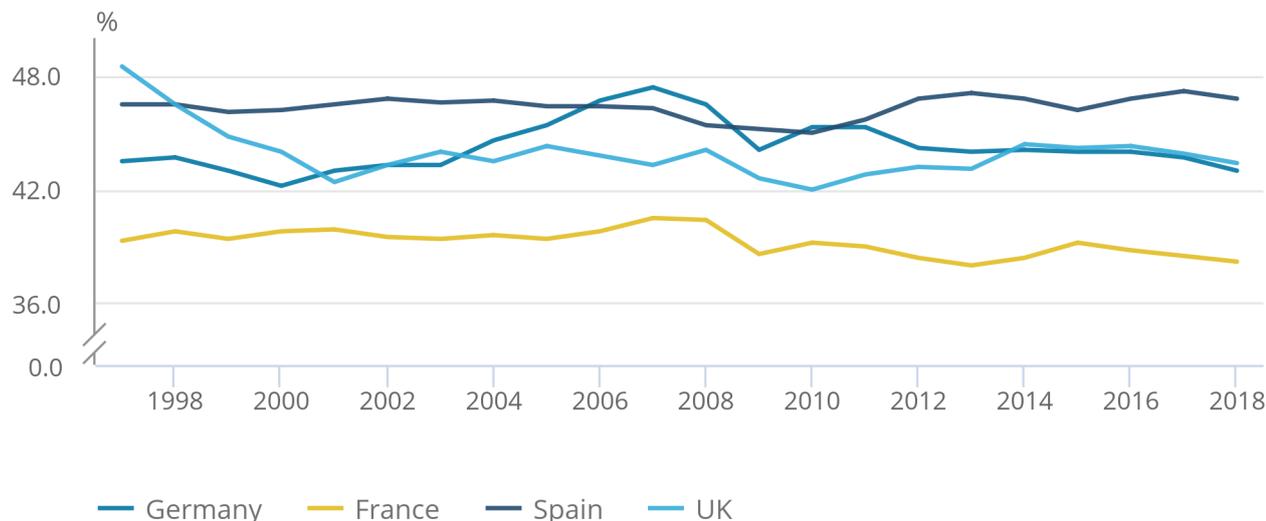
International data on an ESA 2010 basis are only available at the aggregate national level, shown for selected countries (Figure 4).

#### Figure 4: UK's national profit share fell for the second consecutive year

National profit share for selected countries, 1997 to 2018

### Figure 4: UK's national profit share fell for the second consecutive year

National profit share for selected countries, 1997 to 2018



Source: Office for National Statistics - Quarterly Operating Profits Survey, Eurostat

#### Notes:

1. Calendar years are used for Figure 4.

All four countries experienced a decline in national profit share for 2018 and for the UK, Germany and France this was a second consecutive annual decrease. Germany saw the largest percentage fall in 2018, down 0.7%. For the UK, Germany and France the decline coincided with a period of slower growth in 2018, when their respective growth domestic product grew at a lower rate than that experienced by the European Union as a whole. (Source: [Eurostat Tables](#)).

## 7. Links to related statistics

The gross operating surplus (GOS) of private non-financial corporations is a component of the income approach to measuring gross domestic product (GDP). GOS consists of gross trading profits, plus income from rental of buildings, less inventory holding gains (changes in inventory value caused by price). See the [Quarterly national accounts](#) for a detailed breakdown of the components of GDP, as well as main sector accounts aggregates.

The [Quarterly sector accounts](#) includes estimates of national production, income and expenditure, UK Sector Accounts and the UK Balance of Payments.

## 8 . What's changed in this release?

No revisions to the net rates of return for private non-financial corporations have been made to previous quarters. This is consistent with the [quarterly national accounts for Quarter 1 \(Jan to Mar\) 2019](#), published on 28 June 2019.

The estimates quoted in this international comparison section are the latest available estimates published by the respective bodies (referenced) at the time of preparation of this statistical bulletin and may subsequently have been revised. The data are sourced from Eurostat.

We welcome any feedback and are particularly interested in knowing how you use the data to inform your work. Contact us via email at [profitability@ons.gov.uk](mailto:profitability@ons.gov.uk) or telephone David Summers on +44 (0)1633 456602.

## 9 . Quality and methodology

The Profitability of UK companies statistical bulletin reports the estimates for net rate of return on capital employed for UK private non-financial corporations related to their UK operations.

The [Profitability of UK companies](#) and [Quarterly Operating Profits Survey](#) Quality and Methodology Information reports contain important information on:

- the strengths and limitations of the data and how they compare with related data
- uses and users of the data
- how the output was created
- the quality of the output including the accuracy of the data

### Revisions

No revisions have been made to previous quarters.

For more information, please refer to [revisions to economic statistics](#), which brings together our work on revisions analysis, links to relevant documentation and revisions policies.

The estimates quoted in this international comparison section are the latest available estimates published by the respective bodies (referenced) at the time of preparation of this statistical bulletin and may subsequently have been revised. The data are sourced from [Eurostat](#).

### Perpetual inventory method

Underlying estimates of capital stock and capital consumption are produced using the perpetual inventory method. Further details are available in the [Capital stocks and capital consumption QMI](#).

## 10 . Acknowledgements

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